Annual Report 1980

STEINBERG

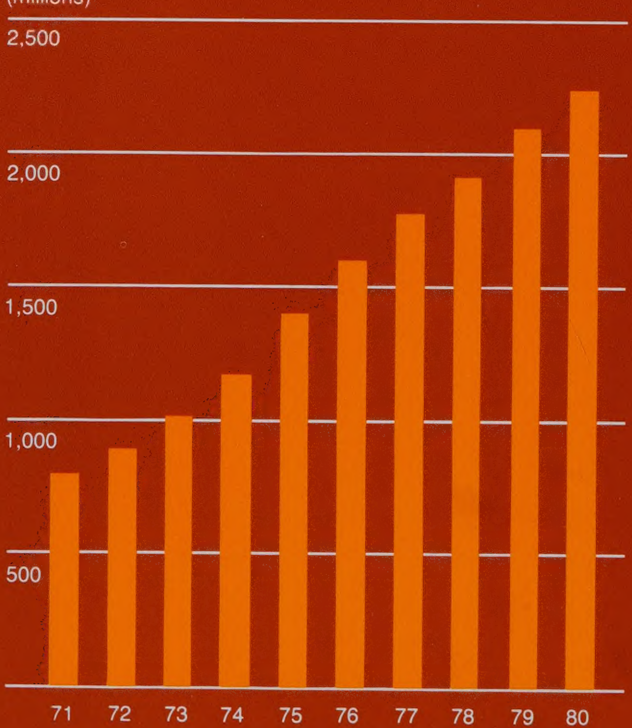
Financial Highlights

(in thousands of dollars except per share items)

	1980 $	1979 $	Change %
Sales and Operating Revenue	2,247,272	2,082,710	7.9
retail food	1,916,202	1,763,399	8.7
general merchandise	227,568	236,515	(3.8)
manufacturing (external sales)	47,360	32,755	44.6
restaurants	40,822	32,454	25.8
real estate operations (external)	15,320	17,587	(12.9)
Net Earnings	27,961	27,191	2.8
retail and manufacturing operations	22,815	20,749	10.0
real estate operations	5,146	6,442	(20.1)
per dollar of sales and operating revenue	1.24¢	1.31¢	(5.3)
Cash Flow from Operations	60,082	57,443	4.6
Working Capital	97,180	105,034	(7.5)
Shareholders' Equity (common and Class "A")	230,340	213,476	7.9
Per Common and Class "A" Share			
net earnings	3.24	3.83	(15.4)
dividends	1.00	.86	16.3
book value	32.52	30.18	7.8
return on average equity	10.33%	13.26%	(22.1)

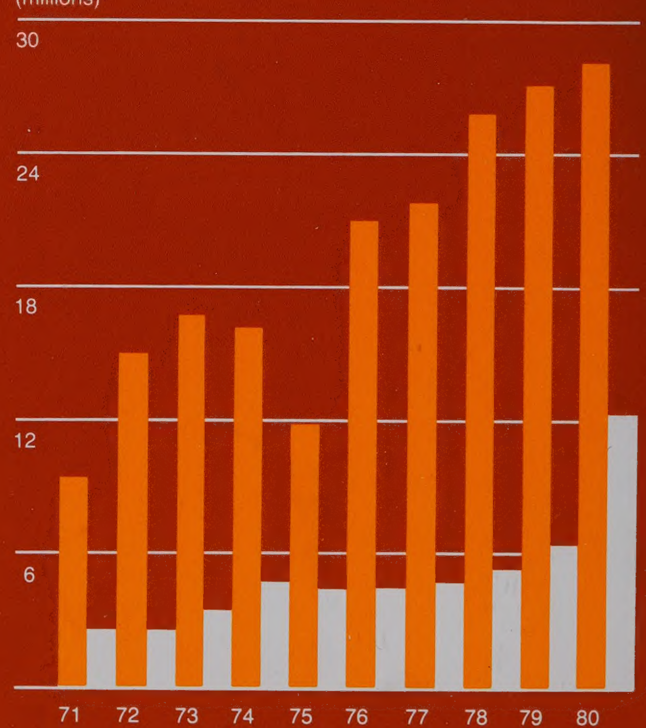
Sales & Operating Revenue

(millions)



Net Earnings & Dividends

(millions)



Report to the Shareholders

The fiscal year that ended July 26, 1980 was not a banner year for the Steinberg group of companies in terms of either sales or profit. It was a year in which continuing inflation, fuelled by the escalating cost of energy and high interest rates, had its greatest impact on food prices. Many customers reacted by changing their buying habits; some tended to limit the actual volume of their purchases.

These factors, intensified retail competition and a three day strike in our major trading area, held sales below the levels planned for our existing food stores and tended to offset the positive contribution of new retail food units and of our other divisions.

Total sales of Steinberg Inc. and its subsidiaries amounted to $2,247,272,000, an increase of $164,562,000 over 1979 sales of $2,082,710,000. As was the case with most North American food chains, the increase in Steinberg's sales was effectively nullified by the rate of inflation.

Net earnings for the year, after taxes, amounted to $27,961,000, compared with 1979 earnings of $27,191,000. In part, this increase was due to a lower overall rate of applicable income taxes. A disturbing occurrence which had a negative effect on our earnings was the discovery that serious misrepresentations made to our subsidiary Ivanhoe Inc. had resulted in a substantial overpayment for a number of properties purchased in Texas and Arizona by its U.S. subsidiaries. Legal proceedings have been instituted to protect the interests of the subsidiaries involved.

Our per share earnings declined from $3.83 to $3.24, reflecting the payment of dividends on the Company's new second preferred shares.

If the year was disappointing in terms of bottom line results, nevertheless we can look back on several positive developments. Among these were the progress in the construction of a major meat plant at Rexdale, Ontario; the opening of very large combination food and drug stores in Vanier and Burlington, Ontario (another superstore was opened in Saint-Jean, Québec shortly after the year end); the rapid expansion and acceptance of our new Valdi food stores in Ontario and Western Canada; the divesting of our interest in Pharmaprix Limited which we viewed as having limited potential; and the measure of agreement reached between Company and union representatives in discussions concerning the quality of working life at Steinberg's.

We look back also on the considerable progress that has been achieved during the past decade. Since 1970 our sales and operating revenues have more than tripled. Net earnings after taxes have increased proportionately. Our financial position is relatively stronger. Large numbers of qualified men and women are available to fill positions of increased responsibility.

Thus we believe we are well positioned to take advantage of worthwhile opportunities for expansion and diversification. In addition to our normal program of substantial investment in new retail and plant facilities and the systematic renovation of older units to improve their efficiency and assure their continued contribution to earnings, we have been considering the potential of two new types of retailing vehicles and have been engaged in the search for worthwhile acquisitions. A number of interesting situations have been studied by our senior management but, apart from the purchase of four "Hypermarché" units, no acquisition has yet been recommended to the Board. The search for organizations with a good earnings history, good management and significant potential for future growth, is continuing.

At one time our senior management could concentrate most of its attention on the effective marketing of products and services. Today, however, they must respond to the insistent demands of governments, unions, consumer organizations, environmentalists and a wide variety of pressure groups. Many such demands require priority attention. Furthermore, management is increasingly obliged to study emerging issues, assess their possible impact on the Company and take whatever action may be appropriate to protect the Company's interests.

During the course of the year, the Company established a new Government Relations department for the purpose of systematically monitoring all new government legislation and regulations in order to intervene and make known the Company's position in cases where government action might have negative consequences on corporate activities. This new service also endeavours to influence government policy and action in areas where it is felt that changes need to be brought to existing legislation. To specifically illustrate the nature of the Government Relations function, we cite some examples of actions undertaken during 1980:

- the presentation of a brief to the Minister of Industry and Commerce of Quebec and to a number of his colleagues seeking to end the flagrant discrimination by which the sale of wine in food stores is denied to Steinberg's and other chains although granted to independents and members of voluntary groups;
- negotiations with the Quebec Government concerning regulations which may limit the effective use of optical scanning equipment;
- presentations to various government authorities concerning a number of other legislative and administrative problems faced by the Company.

In the area of government relations our Legal Department has also been active, not only in contributing to the preparation of briefs to government but also in presenting legal seminars designed to ensure that our divisional and store management understand and comply with federal and provincial legislation affecting their operations.

Intensifying our efforts to cope with both existing and emerging issues has led us naturally toward a reassessment of our basic business philosophy and a redefinition of our standards of corporate conduct. This seems particularly timely in a period when public perceptions of the role of business are changing and business practices are subject to increasingly critical scrutiny. We will be issuing shortly to all employees a restatement of our commitment to a code of ethical corporate behaviour; at the same time we will set out the basic standards of personal integrity which employees throughout the entire Steinberg organization are expected to observe. We believe that Steinberg employees will welcome the publication of these new guidelines.

Our employees, like those of many other firms, were subjected to a considerable measure of stress in 1980. There were some internal labour problems as well as the pressures inherent in a fiercely competitive market environment. Moreover they were affected by Canada's persistent inflation, the discouraging personal tax rates affecting Quebec residents, the general uneasiness concerning the Quebec referendum and the prolonged and inconclusive wrangling between the federal and provincial governments. Their concerns closely paralleled those of the corporation, demonstrating that employers and employees have a greater mutuality of interest than is generally recognized. To Steinberg employees in all sectors we express appreciation for their cooperative effort in these difficult times.

The mere passage of time will not cure the ills of our economy. Inflation in Canada will not abate without a serious effort on the part of our governments to control their spending, nor without a realization on the part of all Canadians that we must live within our means and improve our inadequate standards of productivity. It would be overly optimistic to indicate that these precepts are universally accepted — our federal government appears less interested in controlling its expenditures than in increasing its revenues — yet there is growing evidence of public concern.

Within the Steinberg group, all facets of our business are being subjected to a more critical examination of their performance and of their likely prospects and we have moved to institute a system of "zero based budgeting." These review procedures, the positive reaction of our employees and the upward trend that has become evident in our operations during the first two periods of fiscal 1981, all encourage us to believe that Steinberg Inc. and its subsidiaries will show significant improvement over both the short and the medium term.

Mel Dobrin

Chairman of the Board

Jack Levine

President

September 30, 1980

Board of Directors

1. Melvyn A. Dobrin
2. Jack Levine
3. Nathan Steinberg
4. Donald G. Campbell
5. André Charron, Q.C.
6. J. V. Raymond Cyr
7. Mitzi S. Dobrin
8. James N. Doyle
9. Hon. Lazarus Phillips, O.B.E., Q.C.
10. Gérard Plourde
11. H. Arnold Steinberg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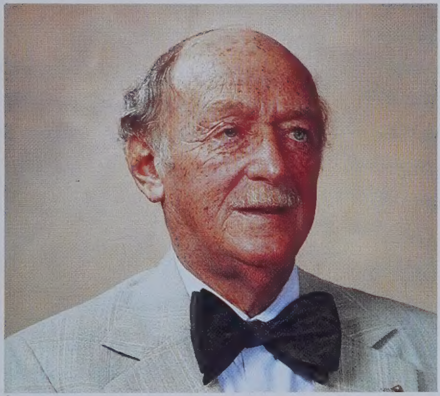
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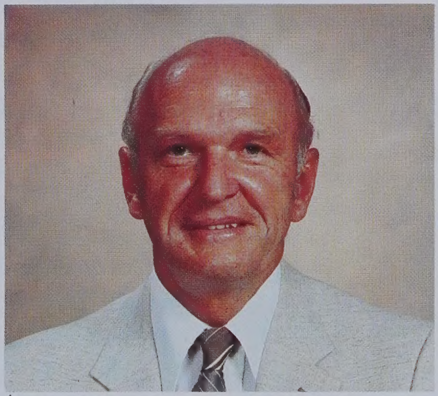
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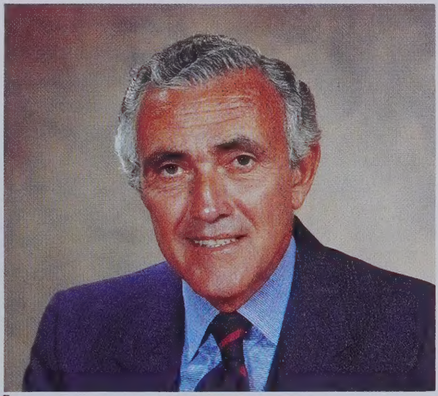
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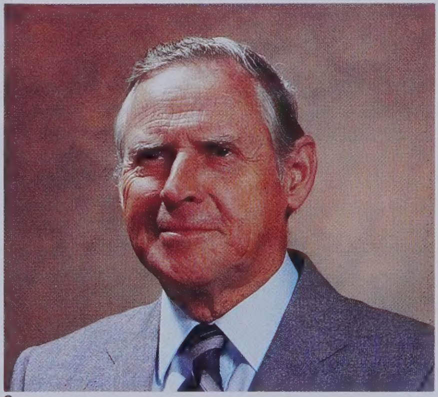
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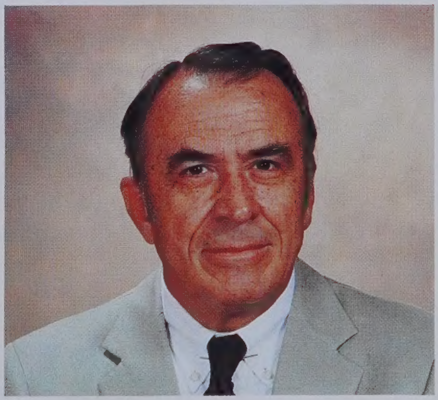
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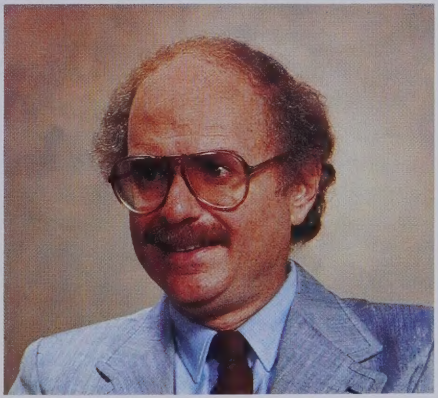
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Financial Review

The financial results of Steinberg Inc. and its subsidiaries for the fiscal year ended July 26, 1980 were relatively stable in comparison with the previous year. During the year the Company disposed of its 50% interest in Pharmaprix Limited, thus disengaging itself from the retail pharmacy business in Quebec where legislation creates certain operational difficulties, acquired four supermarkets in Quebec, including two stores in the superstore category, opened three of its own superstores, including two with a food-drug combination in Ontario and expanded its Valdi operations into western Canada.

Sales and Operating Revenue

Consolidated sales and operating revenue for the fiscal year increased by approximately $165 million or 7.9% to $2,247,272,000, from the figure of $2,082,710,000 achieved in fiscal 1979. Sales from our retail and manufacturing operations, excluding inter-company sales, amounted to $2,231,952,000, an increase of 8% over last year's total which included sales of $28 million made by Cardinal Distributors Limited, a subsidiary disposed of during that year.

Net Earnings

Consolidated net earnings were up by $770,000 or 2.8% to $27,961,000. Earnings per common and Class "A" share, after provision for dividends on preferred shares, amounted to $3.24 compared to $3.83 in fiscal 1979.

Earnings per dollar of sales and operating revenue showed a decline to 1.24 cents from 1.31 cents in the previous year. Earnings from operations before income taxes were reduced, but higher investment income and lower income taxes paid accounted for the improved after tax net earnings.

Improved profitability was achieved by Miracle Mart, Ontario Division, Steinberg Foods and our restaurant operations. Earnings were lower in Quebec Division and Cartier Sugar. Ivanhoe's earnings were reduced as a result of losses and expenses incurred on its U.S. investments, as well as lower gains on sale of land and real estate developments. A small write off on investment was booked on the sale, early in the year, of our 50% interest in Pharmaprix Limited.

Change in Accounting Policies

This year the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to accounting methods for capital and operating leases. Under this policy, certain leases are treated as capital items involving the creation of equivalent long-term debt obligations. This policy has been adopted for leases entered into after July 28, 1979. As a result of this change in accounting, net earnings for the year were reduced by $34,000, net assets were increased by $2,250,000, and liabilities were increased by $2,309,000.

The notes to the audited statements separate, for the first time, certain financial details of the various segments of our business. We believe that this additional information will be useful to both our shareholders and the financial community in evaluating the Company's operations.

Income Taxes

The provision for current and deferred income taxes for the year amounts to $15,142,000 in comparison with $18,616,000 for last year. The effective tax rate on consolidated earnings of 34.6%, in comparison with the normal rate of 49%, gives effect to the inventory tax credit, the reduced rate applicable to manufacturing and processing operations, the significant level of non-taxable dividend income, as well as investment tax credits on certain projects under construction.

Assets and Liabilities

During the year consolidated assets increased by more than $112 million, from $646,548,000 to $759,155,000 at year end. This 17% increase reflects the substantial cash flow from operations, additional long-term debt of Ivanhoe, as well as an increase in short-term bank advances. Both current assets and fixed assets showed increases of approximately $60 million, while other assets declined by approximately $7 million.

The value of inventories on hand increased by approximately 27% to $204 million, attributable principally to the effects of inflation, including significant increases in the cost of raw sugar inventory, as well as the opening of new stores.

The growth of fixed assets was represented by Ivanhoe's land acquisitions in the United States, the construction or purchase of new stores and the

construction of new shopping centres and other support facilities. The adoption of the policy of capitalizing certain leases created an increase in both fixed assets and long-term debt of approximately $2.25 million.

Capital expenditures, net of dispositions, exceeded $87 million, an amount higher than in any previous year. In addition to purchases of real estate for development, our capital expenditure program comprised the opening of eight food stores, including two combination stores of more than 65,000 square feet each, the renovation of eight other food stores and one department store, the construction of two neighborhood shopping centres, the purchase of two Hypermarché stores and two conventional food stores, continued construction of the large meat plant and warehouse in Ontario, the opening of 15 restaurant units and 22 Valdi stores, as well as major renovations and improvements of head office facilities. Capital expenditures for 1981 will be lower, principally reflecting reduced investment in real estate.

At year-end, long-term debt was $186,648,000, an increase of $26 million. This increase was represented by Ivanhoe's private placement during the year of $15,000,000, 12.40% first mortgage bonds and increases in balances payable on land purchases.

Depreciation and amortization, which is computed on the straight line method at rates sufficient to amortize the cost of assets over their estimated useful lives, totalled $27,928,000.

Current assets at year end equalled $341,396,000 in comparison with current liabilities of $244,216,000 resulting in a working capital ratio of 1.40 to 1. Working capital declined during the year by $7.9 million to $97,180,000.

Share Capital & Shareholders' Equity

During the year 10,600 Class "A" shares were issued to employees holding stock options for a total consideration of $170,000. The Company redeemed 27,000 of its Series One, Second Preferred Shares in accordance with the requirements of those shares and 10,200 Subordinated Preferred Shares. Supplementary Letters Patent reduced the authorized capital by cancelling the redeemed shares. Subsequent to the year end, the balance of the outstanding Subordinated Preferred Shares were redeemed.

The book value of shareholders' equity increased from $282,911,000 to $298,100,000. At year end common and Class "A" shareholders' equity equalled $230,340,000 or $32.52 per share outstanding, an increase of 7.8%. Return on average common and Class "A" equity decreased from 13.26% to 10.33% while retained earnings increased from $179,009,000 to $195,600,000. The long-term debt to equity ratio was 39:61 at year end.

Dividends

Dividends paid by the Company during the year to all its shareholders totalled $12,126,000, in comparison to $6,240,000 in the previous fiscal year. This significant increase was principally due to dividends paid for the first time on the Second Preferred Shares which were issued shortly before the end of the previous year. The Series One and Series Two Preferred Shares were paid dividends of $1.93 and $1.80 per share respectively. Dividends paid on the Series A Preferred Shares and Subordinated Preferred Shares were $5.25 and $2.45 per share respectively. Common and Class "A" dividends, which totalled $7,077,000, were maintained at the quarterly rate of 25 cents per share.

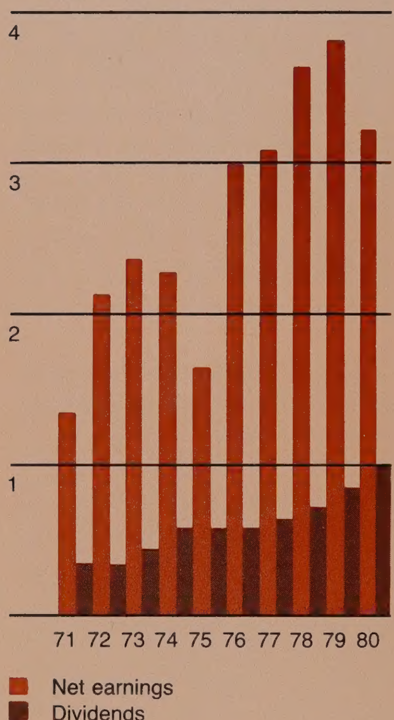
Quarterly Performance

Following is a summary of the unaudited quarterly sales and earnings results of the Company for the past two fiscal years.

(Thousands of dollars except per share item)	1st 12 weeks		2nd 12 weeks	
	1980	1979	**1980**	1979
	$	$	**$**	$
Sales and Operating Revenue	**486,800**	448,780	**524,226**	515,481
Net Earnings	**6,920**	2,478	**4,688**	8,905
Earnings Per Share	**0.85**	0.35	**0.45**	1.25

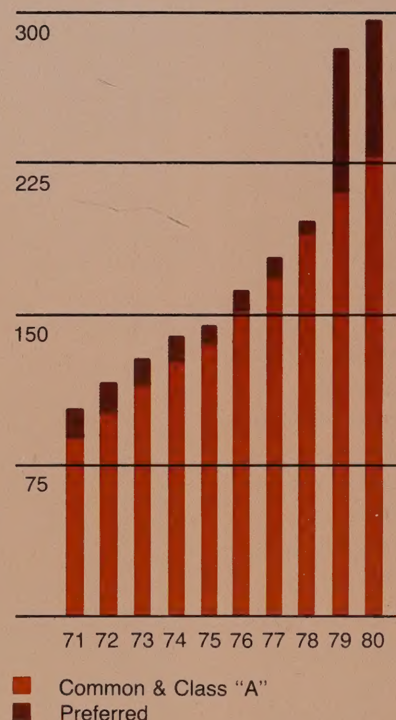
	3rd 12 weeks		last 16 weeks	
	1980	1979	**1980**	1979
	$	$	**$**	$
Sales and Operating Revenue	**521,941**	470,927	**714,305**	647,522
Net Earnings	**4,219**	5,081	**12,134**	10,727
Earnings Per Share	**0.44**	0.72	**1.50**	1.51

Net earnings & Dividends per common & Class "A" share
(dollars)



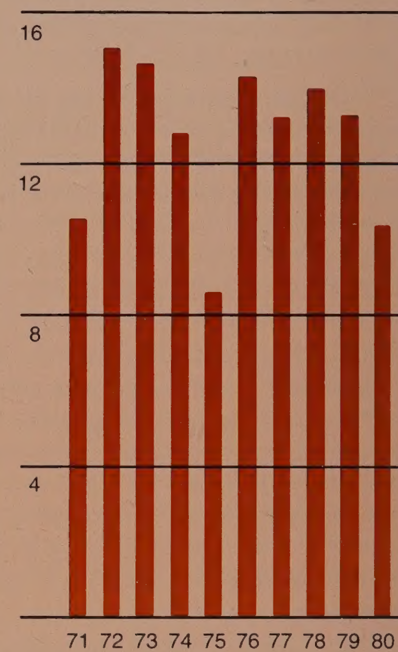
Earnings per share, after provision for preferred share dividends, declined this year, after registering four consecutive years of growth. Over the ten year period, earnings per share have declined from prior year's levels on only three occasions while increasing on seven. Dividends paid per share increased this year, for the fourth time in five years and the sixth time in ten years.

Book value of shareholders' equity
(millions)



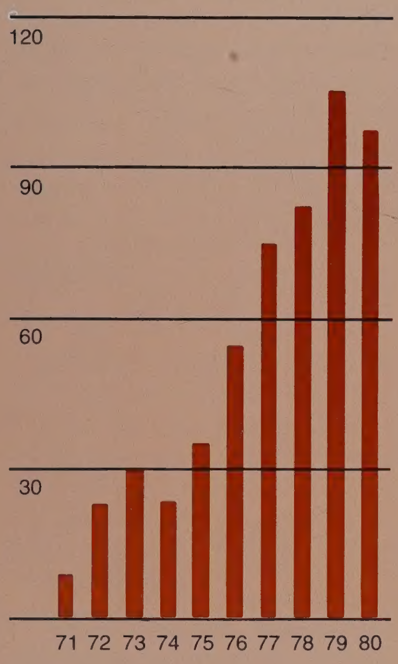
Total shareholders' equity, comprised of preferred stock and common and class "A" equity, increased by $16 million this year. The growth in shareholders' equity has been realized substantially as a result of the retention of net earnings, except for our previous year when $65 million of preferred stock was issued to augment equity capital.

Return on average common & Class "A" equity
(percentage)



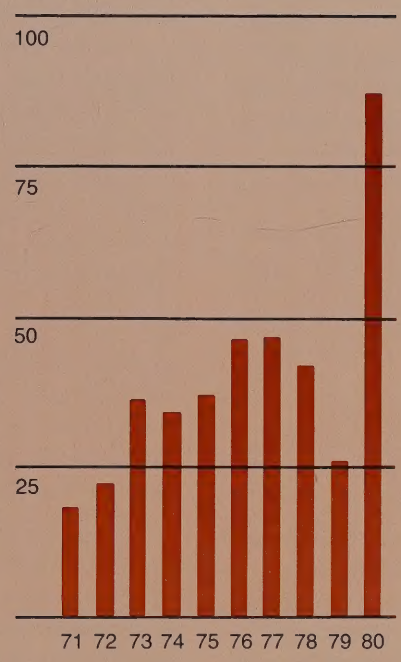
This year's net earnings performance, combined with significantly higher preferred share dividends, resulted in a lower level for this key financial ratio. Although this year's figure was not the lowest recorded over the last ten years, it was below both the average for that period and the Company's expected target.

Working capital
(millions)



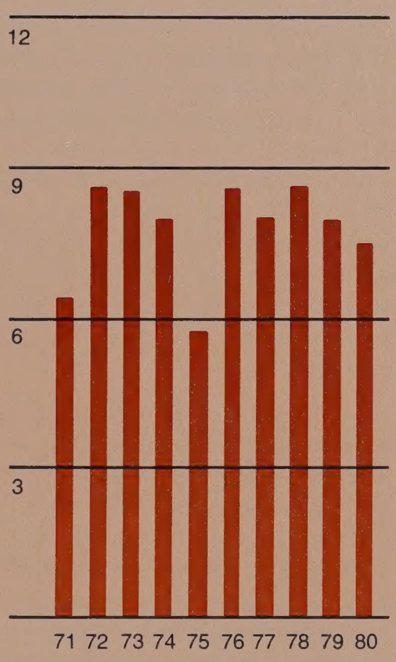
Working capital declined by $8 million, from $105 million at 1979 year end. This decrease stems mainly from a temporary reliance on short-term indebtedness to finance part of the year's capital expenditures. The working capital position remains strong at $97 million, a more than ten-fold increase over ten years.

Capital expenditures
(net of dispositions)
(millions)



Capital expenditures for the year exceeded $87 million, more than double the level of five years ago, and almost five times that of ten years ago. The historical pattern of capital expenditures being approximately equivalent to cash flow from operations was significantly exceeded this year, but that pattern was maintained when measured on a cumulative basis over the last two and five years.

Return on average capital employed
(percentage)



This indicator of over-all profit performance showed a decline. Although this year's rate of return exceeded the levels of five and ten years ago, it is short of both the historical average and the Company's goals.

Divisional Operating Review

Retail Food Operations

Retail food sales continue to represent approximately 85% of the total sales and operating revenue of the Steinberg organization. Total sales of our retail food divisions, which comprise Quebec Division (including the Hypermarché stores acquired during the year), the Miracle Food Mart Division and Valdi Discount Foods showed an increase of 8.7% to $1,916,202,000. This sales increase, despite a number of additional stores, was disappointing and did not meet our expectations. It reflected consumer reaction to rising food prices and changes in their buying habits, as well as intense competition in the marketplace.

Pre-tax profits of our retail food operations showed a slight decline. This resulted from the strike suffered in our Montreal area stores in early winter, the costs associated with the integration of the purchased Hypermarché units, higher than budgeted operating expenses due to high wage settlements, escalating energy costs and the higher cost of capital and real estate taxes. Higher gross margins only partially compensated for the increased operating expenses.

Based on the number of stores and square footage at year end, average weekly sales per store in our supermarket divisions were more than $162,000 and annual sales per square foot of selling area exceeded $448.

Quebec Division

Despite increased sales, the pre-tax earnings of Quebec Division declined during the past fiscal year. A three-day strike in our Greater Montreal area stores, in November 1979, resulted not only in lost sales but in extremely high costs. In addition, significantly higher costs for energy, capital and employee salaries and benefits reduced divisional earnings. However, the results of the last quarter showed a return to budgeted profitability.

In March 1980, four Hypermarché units were acquired, two in Montreal which will continue to be operated under the "Hypermarché" with a separate marketing strategy and a store in each of Quebec City and Sherbrooke which have been integrated into the regular divisional structure. In addition, Quebec Division opened five supermarkets, including its first combination food and drug store in Vanier, Ontario, closed four others and renovated six. It now operates 154 stores, 12 of which have been converted to front-end electronic scanning.

At the end of the fiscal year a major re-organization within the division took place with the appointment of Mr. Marvin Biltis as Group Vice-President and General Manager. The Management Committee of the division was re-structured with the appointment of Mr. Jean-Claude Lelièvre as Vice-President, Store Operations, Mr. Jean-Roch Vachon, Vice-President, Distribution, Mr. Guy Massé, Vice-President, Marketing and Mr. François Jolicoeur to the new position of Vice-President, Administration. It includes Mr. Rodrigue Gagnon as Vice-President, Human Resources, as well as Mr. Jacques Lacas who was appointed Vice-President and General Manager of Québec-Nord Division.

The Management Committee and all departments of the division are dedicating their efforts towards achieving maximum customer satisfaction. Economic conditions, intense competition, the disadvantage of not being permitted to sell wine and constraints of operating during shorter store hours than many competitors, dictate that the marketing approach must be geared to standards superior to those of the competition. In this light, continued emphasis will be placed on upgrading both store presentation and customer service.

Better return on investment, improvement in overall contribution to the corporation and the continued development of our human resources remain prime objectives of the division.

Miracle Food Mart

Miracle Food Mart, our supermarket division operating in central and southwestern Ontario, showed satisfactory increases in both sales and profits. Sales increased by more than 9% while pre-tax profits showed a 15% improvement. Operating expenses and gross margins were both basically in line with budgeted projections.

Construction of the division's new meat plant and warehouse, referred to in our last Annual Report, is progressing satisfactorily. The first phase is scheduled for opening in the coming spring and full production expected before the end of calendar

1981. The division has been actively working with the union to ensure that employees in this plant will function in natural work groups which will have a degree of decision making responsibility.

During the fiscal year Miracle Food Mart opened three new stores, including one combination food and drug superstore with a gross area of 67,000 square feet, renovated two older stores and closed two stores. At year end the division was operating 70 food supermarkets, 39 of which are equipped with electronic cash registers, including eight which utilize the scanning process.

The operations of Miracle Food Mart are spread geographically from Belleville in the east, to Windsor in the west and from Niagara Falls in the south to Sudbury in the north. The need for improved co-ordination of these operations prompted the appointment of Douglas Stewart as Vice-President, Marketing and the creation of two new directors of unit operations.

In recent years Miracle Food Mart has seen a number of its management personnel transferred to other areas of the Company, a consequence of the high level of training and experience which the division provides. Such transfers and promotions, as well as the growth of the business, have opened up a number of positions which have been filled from within.

A new two-year collective agreement covering the division's food store employees was successfully negotiated immediately following the end of the fiscal year.

Valdi Inc.

This new subsidiary, which commenced operations in the province of Ontario late in the previous fiscal year, is exploring new areas of possible growth in food retailing. During the year 22 new outlets were opened, including four in the prairie provinces. Twenty-eight such stores were in operation at year end.

Valdi offers a limited line of non-perishable grocery items in small, relatively plain stores, at prices substantially below those of conventional supermarkets. This concept, which originated in Europe, has received good public acceptance. Sales in these stores show a consistent growth pattern and the division is operating at budgeted levels. Even after relatively heavy store opening expenses relating to the fast expansion, a small profit was realized for the year.

Since the year end three additional stores have been opened in Ontario and eight in western Canada with further expansion planned in both areas.

Department Store Operations

Sales of our Miracle Mart department stores improved by 9% to more than $225 million. Operational expenses showed a minimal increase and, while gross margins were reduced, there was a significant improvement in pre-tax profits.

During the year the division, under the sponsorship of the Canadian government, was heavily involved in providing essential goods and clothing to many of the Vietnamese "boat people" who settled in eastern Canada.

At year end the division was operating 32 stores, in comparison with 34 last year, one store in Chicoutimi having been destroyed by fire and a second store in Montreal being temporarily closed pending renovations. This unit will reopen next spring with extensive changes to its layout and with a new marketing concept.

Miracle Mart is continuing to take measures designed to ensure appropriate merchandise availability and to increase the efficiency of its operations. Amongst others, these include better scheduling of store personnel to meet varying customer traffic patterns and the use of merchandise specialists to better co-ordinate the work of buyers and store personnel and such related functions as store display and advertising. In addition, new technology designed to speed up the processing of purchase orders and to provide details of merchandise on order has been put in place in co-ordination with store level electronic data processing equipment. Divisional management has been engaged in extensive market research better to identify its typical customers and the types of merchandise which they prefer, as well as to measure the effectiveness of Miracle Mart's advertising.

Miracle Mart's strategies for more efficient management, more attractive pricing, more effective advertising and more sensitivity in customer relations should enable the division to meet its market share and financial objectives.

Oak Pharmacies Limited

The pharmacy section of the two food and drug combination superstores opened in Ontario during the year is operated by our subsidiary, Oak Pharmacies Limited. Pharmacy sales were ahead of budget, but a small operational loss was recorded.

Mr. Mark Schwartz was appointed as Vice-President and General Manager of this operation for which several additional units are planned.

Manufacturing Operations

Total sales of our food manufacturing and processing subsidiaries amounted to $119,489,000, an increase of 23%; however, a good portion of this increase was represented by substantially higher sugar prices. Sales to outside customers equalled $47,360,000, or approximately 40%, with the balance being inter-company sales.

Steinberg Foods Limited

Results in both sales and profits for Steinberg Foods and Multimarques Inc., its wholly owned subsidiary, were higher than last year. Sales improved by approximately 8% and earnings increased substantially over last year's strike-affected results. However, the level of profitability is still not satisfactory.

Sales to the retail food divisions of the Company have followed the nation-wide trend towards reduced consumption. On the other hand, steady growth has been achieved by Multimarques through an aggressive sales programme for its full range of bakery products and a number of packaged food items directed at other major food chains and independent food retailers in Quebec and Ontario.

In an effort to improve results of this division, a detailed review of all its operations has been undertaken. Further study may result in the closing down of certain operational lines and the transfer of the production of certain items to in-store bakeries in the Company's supermarkets.

Cartier Sugar Ltd.

The fiscal year saw a tripling of world sugar prices largely due to poor supply performance of some countries. Over-capacity within the Canadian refining industry, combined with a slightly diminishing market (continuing inroads being made by lower cost corn-based sweeteners) has intensified the competitive situation in Cartier's major market area. The Company was compelled to absorb a significant portion of its increased cost of operations, particularly escalating energy costs. Of greater importance, however, was the rapidly escalating cost of raw sugar which led to greatly increased financial charges related to the Company's market operations. Furthermore, poorer returns were realized on the sale of by-products, the price of which is insensitive to changes in the cost of raw sugar.

As a result of all of these factors Cartier's financial performance during the fiscal year was disappointing. Although sales revenue increased significantly, actual tonnage sold declined slightly, while earnings showed a major drop.

Forecasts indicate continuing high sugar prices in the immediate future, which, with industry over-capacity and an escalating competitive situation, will lead to continued low profitability.

The modernization program noted in our previous Annual Report will be fully operative by the end of the current fiscal year. The improved product quality and increased capacity should attract new customers, leading to better profitability in the 1981-82 fiscal year.

Phénix Flour Limited

Tonnage sold by Phénix during the fiscal year exceeded last year's volume by almost 5% while sales in dollars increased by 30%, reflecting higher prices in the industry. Although profits increased by 7% reduced exports of flour and a strike at the Montreal grain elevators at the beginning of the fiscal year prevented Phénix from meeting its budgeted figures.

Higher wheat prices arising from the recent change in the "two-price" system are expected to reduce domestic demand for flour. This fact, coupled with a narrowing of the export market, leads us to expect intensified competition for the current year. Phénix is focusing on improving its market share through improved plant efficiency, increased sales effort, the offering of better service to its customers and a more competitive pricing structure.


MAIL
Champlain
MALL

Restaurant Operations

Our restaurant operations achieved significant increases in both sales and operating profits. Sales increased to $40.8 million for the year while pre-tax profits showed a 25% improvement. Operating expenses were held within budget despite higher costs of food and other products and the effect of the new Federal sales tax on paper goods.

The Salisbury House operation, which is based in Winnipeg and was purchased during the latter part of the previous fiscal year, achieved gratifying results. Two new units were opened. We plan to expand this concept of servicing restaurants from a central commissary to other parts of Canada.

During the year Multi Restaurants was awarded the contract to provide all restaurant services at the world renowned Ontario Science Centre in Toronto. This agreement covers normal food service to the public and staff, as well as catering for banquets. Banquet services have been provided for groups such as the Ontario government, public and private institutions, conventions, consulates, and private parties for groups numbering from 25 up to 2,000 persons.

At year end there were 200 restaurants and fast food outlets in operation, with 15 being opened during the year and six older units closed.

Continued emphasis is being placed on the development and strengthening of the human resources necessary for the continued rapid expansion of our restaurant business.

Personnel

The Company provides employment to more than 25,000 Canadians, ranging from students working on a part-time basis to help finance their education through thousands of full-time store and warehouse personnel to office employees with a high level of technical or professional expertise. Many of these employees have devoted their entire working career to Steinberg — we presently have on our payroll more than 220 employees with over 30 years service with our organization.

Salaries, wages and the cost of benefits for our employees exceeded $350 million for the year, an increase of 12.7% over the figure for the previous year. Our total wage bill now represents more than 15.5% of total sales and operating revenue.

In the area of human resources management, the fiscal year was one of conclusions and beginnings. The year was marked by the implementation of a new structure, an administrative reorganization of the sector, and the appointment of senior executives whose distinctive talents reflect the Company's manifold needs and concern for a rational integration of everyone's efforts.

Under the new structure, all special human resources activities are grouped under three directorships: Organizational and Personnel Development, Employee Relations and Communications and Personnel Information Services.

This make-up is designed to promote the operational integration of groups of sectors with interdependent mandates. For instance, the Employee Relations group covers labour relations, compensation plans, pension plans and central benefits. The Personnel Information and Research section coordinates the communications and research sectors and the personnel management information center. Finally, the Development group is responsible to monitor the two employment offices of the Company and the medical center.

Serge Wagner, Vice-President, Employee Relations, came to us from outside; however, the other two directors were recruited from Company employees.

Consolidated statements of earnings and retained earnings

Steinberg Inc. and Subsidiary Companies
For the year ended July 26, 1980
(thousands of dollars)

Earnings

	1980	1979
	$	$
Sales and Operating Revenue	**2,247,272**	2,082,710
Expenses		
Cost of sales and expenses except those shown below	**1,783,065**	1,658,615
Wages and employee benefits	**347,763**	308,466
Directors' and officers' remuneration	**2,589**	2,456
Rentals	**30,736**	28,642
Depreciation and amortization	**27,928**	25,463
Interest and amortization of discount on long-term debt	**16,509**	15,483
Other interest	**6,021**	3,322
Investment income, including interest earned and gain on redemption of long-term debt	**(8,731)**	(5,912)
Share of net earnings of affiliated companies and partnerships	**(2,342)**	(191)
	2,203,538	2,036,344
Earnings before Income Taxes and Minority Interest	**43,734**	46,366
Income Taxes		
Current	**11,580**	14,386
Deferred	**3,562**	4,230
	15,142	18,616
Earnings before Minority Interest	**28,592**	27,750
Minority Interest	**631**	559
Net Earnings for the Year	**27,961**	27,191
Represented by:		
Retail and manufacturing companies	**22,815**	20,749
Real estate companies	**5,146**	6,442
	27,961	27,191
Net Earnings per Class "A" and Common Share	**$3.24**	$3.83

Retained Earnings

	1980	1979
	$	$
Balance – Beginning of Year	**179,009**	174,226
Net earnings for the year	**27,961**	27,191
Recovery of income taxes on expenses relating to the issue of second preferred shares in 1979	**756**	
	207,726	201,417
Dividends		
5¼% preferred shares, Series "A"	**128**	128
$1.95 cumulative redeemable second preferred shares, series one	**3,456**	
Variable rate cumulative redeemable second preferred shares, series two	**1,440**	
2½% subordinated preferred shares	**25**	50
Class "A" and common shares	**7,077**	6,062
	12,126	6,240
Transfer to capital stock		14,504
Expenses relating to the issue of second preferred shares		1,664
	12,126	22,408
Balance – End of Year	**195,600**	179,009

Consolidated balance sheet

Steinberg Inc. and Subsidiary Companies
As at July 26, 1980
(thousands of dollars)

Assets	1980 $	1979 $
Current Assets		
Cash	**13,577**	8,066
Short-term marketable securities (note 3)	**78,513**	74,246
Accounts receivable	**29,651**	24,844
Income taxes recoverable		1,487
Inventories	**204,378**	159,885
Prepaid expenses	**15,277**	12,970
	341,396	281,498
Other Assets (note 4)	**24,539**	31,338
Fixed Assets (note 5)		
Real estate operations	**195,787**	163,235
Retail and manufacturing operations	**177,313**	150,226
	373,100	313,461
Intangible Assets		
Unamortized discount on long-term debt	**1,882**	1,939
Goodwill	**18,238**	18,312
	20,120	20,251
	759,155	646,548

Signed on Behalf of the Board
Mel Dobrin, Director
Jack Levine, Director

Liabilities	1980 $	1979 $
Current Liabilities		
Bank advances and notes payable	**62,010**	30,610
Accounts payable and accrued liabilities	**181,794**	145,808
Dividends payable	**32**	32
Income taxes	**151**	
Current portion of long-term debt (note 6)	**229**	14
	244,216	176,464
Long-Term Debt and Other Obligations (note 6)		
Real estate operations	**126,076**	100,992
Retail and manufacturing operations	**60,572**	59,608
	186,648	160,600
Deferred Income Taxes	**26,826**	23,264
Minority Interest	**3,365**	3,309
	461,055	363,637

Shareholders' Equity

Capital Stock (note 7)	**102,138**	103,643
Contributed Surplus (note 8)	**362**	259
Retained Earnings	**195,600**	179,009
	298,100	282,911
	759,155	646,548

Consolidated statement of changes in financial position

Steinberg Inc. and Subsidiary Companies
For the year ended July 26, 1980
(thousands of dollars)

	1980 $	1979 $
Source of Working Capital		
Net earnings for the year	**27,961**	27,191
Items not affecting working capital		
Depreciation and amortization	**27,928**	25,463
Deferred income taxes	**3,562**	4,230
Minority interest	**631**	559
Provided from operations	**60,082**	57,443
Additional debt and capital stock issued		
Present value of obligations under capital leases	**2,248**	
Bankers' acceptances under long-term commitment	**5,000**	
Mortgages and balance of purchase price payable	**18,121**	2,139
Net proceeds from issue of 12.40% series 1980 first mortgage sinking fund bonds due 1995	**14,907**	
Net proceeds from issue of second preferred shares		63,336
Issue of Class "A" shares to employees	**170**	1,163
Investments and other items	**7,023**	(18,875)
Recovery of income taxes	**756**	
	108,307	105,206
Use of Working Capital		
Net additions to fixed assets		
Real estate	**36,860**	(10,230)
Retail and manufacturing	**48,393**	36,438
Capital leases	**2,314**	
	87,567	26,208
Reduction of long-term debt	**14,321**	48,468
Reduction of minority interest	**575**	200
Retirement of preferred shares	**1,572**	1,024
Dividends	**12,126**	6,240
	116,161	82,140
Increase (Decrease) in Working Capital	**(7,854)**	23,066
Working Capital – Beginning of Year	**105,034**	81,968
Working Capital – End of Year	**97,180**	105,034

Notes to consolidated financial statements

Steinberg Inc. and Subsidiary Companies
For the year ended July 26, 1980

1. Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. Investments in affiliated companies and partnerships not controlled by the company are accounted for on the equity basis.

Inventories

Inventories are valued at the lower of cost and net realizable value using principally the retail method for retail stores and average cost for the remaining inventories.

Fixed assets

Real estate operations

Income producing properties are carried at cost (including development expenses). Land held for future development is carried at cost plus direct carrying charges on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

Retail and manufacturing operations

Land, buildings and equipment are carried at cost. Leasehold improvements are carried at cost less amortization. Store opening expenses are charged to operations as incurred.

Depreciation and amortization

(a) Depreciation of fixed assets is computed on the straight-line method over the following estimated useful lives:

Buildings	40 years	Automotive equipment	6 to 12 years
Parking areas	25 years	Data processing equipment	5 years
Store equipment	10 years		

Amortization of leasehold improvements is computed on the straight-line method over the estimated useful life which in no case exceeds the lesser of the term of the lease plus one option or 40 years.

(b) Long-term debt discount is amortized over the term of the issue.

(c) Goodwill represents the excess of the cost of shares in subsidiary companies over the fair value of assets acquired in transactions subsequent to April 1, 1974 and over the net book value of assets acquired in transactions prior to that date. Goodwill attributable to transactions subsequent to April 1, 1974 is amortized on a straight-line basis over forty years. Goodwill prior to that date is carried at cost, subject to revision in the event of diminution in value.

Leases

All leases entered into after July 28, 1979 that transfer substantially all the benefits and risks incident to the ownership of property to the lessee have been classified as capital leases. Where the company is the lessee this has resulted in certain leases being accounted for as if fixed assets had been purchased and an equivalent debt obligation incurred. Where the company is the lessor it has not resulted in any leases being accounted for as if fixed assets had been sold.

Assets recorded under capital leases are depreciated on a straight-line basis over the term of the lease. Obligations under capital leases are reduced by rental payments net of imputed interest and executory costs.

All other leases are accounted for as operating leases and the rental costs or income are accounted for as incurred or earned.

Dividend income

Dividend income from investments guaranteed by a Canadian chartered bank is accrued as earned. Other dividends are recognized as income on the date of declaration.

Foreign currency translation

Accounts in foreign currencies are translated into Canadian dollars. Asset and liability accounts are translated at year-end rates, except fixed asset interests and long-term debt which are translated at rates prevailing at the transaction dates. Gains or losses on translation are included in earnings.

1. **Accounting Policies (cont.)**

Income taxes

Deferred income taxes represent amounts deferred to future years due to the earlier deduction of certain expenses, principally depreciation, for tax purposes. Investment tax credits are reflected in earnings in the year they are claimed for tax purposes.

Calculation of earnings per share

Net earnings per Class "A" and common share are calculated according to the weighted average number of such shares outstanding during the year and are based on the net earnings for the year after deducting dividends on all preferred shares.

2. **Change in Accounting Policy**

In the year ended July 26, 1980, the company adopted the recommendation of the Canadian Institute of Chartered Accountants related to accounting for leases as set out in note 1. As a result of this change, net earnings for the year were reduced by $34,000. In addition, net assets increased by $2,250,000 while current and long-term obligations increased by $61,000 and $2,248,000 respectively.

This change in accounting has not been applied on a retroactive basis. As a result, leases entered into prior to July 29, 1979, and meeting the capitalization criteria have continued to be treated as operating leases. Had the recommendations been applied on a retroactive basis, assets and obligations of $45,378,000 and $54,304,000 respectively would have been included in the balance sheet, and net earnings for the current year would have been reduced by $599,000.

3. **Short-Term Marketable Securities**

	1980	1979
	(thousands of dollars)	
The company's short-term investment portfolio is carried at cost which approximates market or realizable value and is comprised of:		
Marketable interest bearing or discount promissory notes, bankers' acceptances or treasury bills	**8,513**	14,246
Floating rate term preferred shares which are either retractable or are subject to Put Option Agreements with a Canadian chartered bank under which the company may require the bank to purchase the shares	**70,000**	60,000
	78,513	74,246

4. **Other Assets**

These comprise the following:

	1980	1979
	(thousands of dollars)	
Interest in affiliated companies and partnerships		
Shares and interests — at equity	**3,604**	5,154
Advances	**1,144**	1,572
	4,748	6,726
Advances and other recoverable amounts with respect to real estate transactions	**530**	4,837
Funds on deposit and other items	**2,396**	2,225
Investment in Consumers Distributing Company Limited		
530,000 common shares at cost (quoted market value as at July 26, 1980 — $5,035,000)	**9,010**	9,010
Non-interest bearing note payable in equal monthly instalments to February 1, 1989	**1,439**	1,606
Interest bearing note at 1% above prime, payable in semi-annual instalments on August 1 and February 1 of each year and maturing on February 1, 1986	**7,101**	7,571
	17,550	18,187
Less: Current portion due within one year	**685**	637
	16,865	17,550
	24,539	31,338

5. Fixed Assets

	1980	1979
	(thousands of dollars)	
Real estate operations		
Land held for future development	**52,801**	27,032
Income producing properties	**194,986**	183,895
	247,787	210,927
Accumulated depreciation	**52,000**	47,692
	195,787	163,235
Retail and manufacturing operations		
Land and buildings	**6,101**	5,351
Equipment	**254,893**	220,618
	260,994	225,969
Accumulated depreciation	**124,179**	110,315
	136,815	115,654
Leasehold improvements	**38,248**	34,572
Assets under capital leases at cost less amortization of $64,000	**2,250**	
	177,313	150,226

6. Long-Term Debt and Other Obligations

	1980	1979
	(thousands of dollars)	
Real estate operations		
(Refer to page 27 and note 4 to the consolidated financial statements of Ivanhoe Inc.)	**136,654**	112,855
Elimination of notes and advances due to Steinberg Inc.	**10,578**	11,863
	126,076	100,992

Due to the nature of the real estate operations, the current portion due within one year is not included under current liabilities. This portion will be financed in the same period from rental income under lease agreements which is not included in accounts receivable

	1980	1979
	(thousands of dollars)	
Retail and manufacturing operations		
Steinberg Inc. sinking fund debentures		
5¾% Series A, due 1984	**7,033**	7,503
6⅝% Series B, due 1986	**7,985**	8,261
8⅝% Series C, due 1992	**18,196**	18,550
10½% Series D, due 1994 (or 1984 at option of holder)	**25,000**	25,000
Present value of obligations under capital leases	**2,288**	
Various mortgage loans of a subsidiary	**299**	308
	60,801	59,622
Less: Current portion due within one year	**229**	14
	60,572	59,608

At July 26, 1980 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity by Steinberg Inc. and its subsidiaries for the ensuing five fiscal years, are as follows:

	1981	1982	1983	1984	1985
			(thousands of dollars)		
Real estate operations	4,876	5,409	6,620	6,839	12,286
Retail and manufacturing operations	1,710	1,711	1,928	6,733	1,250
	6,586	7,120	8,548	13,572	13,536

6. Long-Term Debt and Other Obligations (cont.)

The amount shown as payable in 1985 does not include the $25,000,000 Series D debentures all or part of which may become payable in that year at the option of the holder. The excess of bonds cancelled or purchased for redemption to date over the cumulative sinking and purchase fund requirements at July 26, 1980 amounting to $2,361,000 in the case of real estate operations and $1,536,000 in the case of retail and manufacturing operations may be applied against these requirements.

7. Capital Stock

(a) This is comprised as follows:

	1980	1979
	(thousands of dollars)	
Authorized		
24,360 cumulative redeemable preferred shares of the par value of $100 each		
3,973,000 second preferred shares of the par value of $25 each, issuable in series		
10,200 2½% non-cumulative redeemable subordinated preferred shares of the par value of $98 each		
4,500,000 Class "A" shares without par value, non-voting		
3,500,000 common shares without par value		
Issued, outstanding and fully paid		
24,360 5¼% cumulative redeemable preferred shares, Series "A"	**2,436**	2,436
1,773,000 $1.95 cumulative redeemable second preferred shares, series one (1979 – 1,800,000)	**44,325**	45,000
800,000 variable rate cumulative redeemable second preferred shares, series two 7.2% to 1984	**20,000**	20,000
10,200 2½% non-cumulative redeemable subordinated preferred shares (1979 – 20,400)	**999**	1,999
4,083,288 Class "A" shares non-voting (1979 – 4,072,688)	**22,202**	22,032
3,000,000 common shares	**12,176**	12,176
	102,138	103,643

(b) During the year the company redeemed 27,000 $1.95 cumulative redeemable second preferred shares, series one, and 10,200 subordinated preferred shares. Supplementary Letters Patent were granted July 11, 1980 cancelling these shares. Subsequent to July 26, 1980 the final 10,200 subordinated preferred shares were redeemed.

(c) As at July 26, 1980 the company had reserved 144,112 Class "A" shares as follows:

	Number of shares	Price per share
Options to senior employees		
Exercisable to November 30, 1981	44,800	$16.00
Reserved for future allocation of options at a price to be determined by the Board of Directors but not less than 90% of the market value at the time of allocation	99,312	
	144,112	

The exercise of all the outstanding options would dilute earnings per Class "A" and common share by 1 cent (1979 — 2 cents).

(d) During the year 10,600 (1979 — 72,195) Class "A" shares were issued to employees for cash of $170,000 (1979 — $1,163,000).

8. Contributed Surplus

The contributed surplus as at July 26, 1980 consisted of gains on redemption of 5¼% preferred shares, Series "A" amounting to $259,000 with respect to prior years and $103,000 on redemption of $1.95 cumulative redeemable second preferred shares, series one in 1980.

9. Retirement Plans

Substantially all employees of the company and its subsidiaries are covered by trusteed retirement plans, most of which are non-contributory. The company has obligations for unfunded past service liabilities in these plans totalling $11,298,000 based on actuarial evaluations of January 1, 1979 and January 1, 1980. These obligations will be satisfied as follows:

$4,535,000 by annual payments of principal and interest of $470,000 to 1989; $453,000 in 1990; $416,000 in 1991; $344,000 in 1992; and $309,000 in 1993.

$6,763,000 by annual payments to 1995 based on a formula which multiplies hours worked by certain food store employees by a contractual rate.

During the year ended July 26, 1980 $1,515,000 in respect of past service obligations was charged to operations.

10. Lease Obligation and Commitments

Future minimum lease payments relating to capital and operating leases are as follows:

	Capital leases	Operating leases
	(thousands of dollars)	
Fiscal years ending July 1981	349	25,870
July 1982	342	25,073
July 1983	326	24,539
July 1984	249	23,552
July 1985	270	22,501
Subsequent years	8,041	327,783
Total future minimum lease payments	9,577	449,318
Less: Amounts representing imputed interest and executory costs	7,289	
Present value of obligations under capital leases	2,288	

The terms relating to long-term obligations under capital leases range substantially from 30 to 40 years, with related interest rates ranging from 4.83% to 11.61%.

11. Contingent Liabilities

(a) Subsidiaries of Steinberg Inc. have guaranteed bank loans to third parties in the aggregate amount of $1,308,000, of which $620,000 is in respect of indebtedness of 21 senior officers of Steinberg Inc., three of whom are directors. A subsidiary has pledged $1,000,000 in marketable securities to support its guarantee of the bank advances to those officers.

(b) Steinberg Inc. has guaranteed leases assigned to Consumers Distributing Company Limited in respect of the sale of the retail operations of Cardinal Distributors Limited in the amount of $2,913,036 payable over a period ranging from 3 to 19 years.

(c) Consumers Distributing Company Limited has instituted arbitration proceedings in connection with its purchase of the assets of Cardinal Distributors Limited (now Orcom Inc.), contesting certain inventory reserves used in determining the sale price of the inventory and requesting an additional write-down of approximately $1,500,000. The company believes that the claim is substantially without foundation and is contesting the proceedings.

12. Litigation

The company's real estate subsidiary, Ivanhoe Inc. and certain of the latter's U.S. subsidiaries have instituted legal action in the United States seeking recision and/or damages with respect to certain properties acquired during the year by those U.S. subsidiaries. No provision for any such recovery has been made in the accounts.

13. Comparative Figures

Certain figures for the prior year have been reclassified to conform to the current year's presentation.

14. **Results by Business Segment**
(in thousands of dollars)

	Food Retailing and Manufacturing 1980	1979	General Merchandise Retailing 1980	1979	Real Estate 1980	1979	Consolidated 1980	1979
Sales and Operating Revenue								
Outside customers	**2,004,384**	1,828,608	**227,568**	236,515	**15,320**	17,587	**2,247,272**	2,082,710
Inter-segment					**13,206**	12,287		
Total	**2,004,384**	1,828,608	**227,568**	236,515	**28,526**	29,874	**2,247,272**	2,082,710
Operating Profit	**47,485**	47,466	**3,688**	1,765	**17,525**	21,286	**68,698**	70,517
Corporate Expenses, including income taxes, less income							**40,737**	43,326
Net Earnings							**27,961**	27,191
Assets								
Identifiable by segment	**342,693**	275,136	**75,438**	72,380	**205,760**	177,521	**623,891**	525,037
Corporate							**131,650**	116,357
Investment in affiliates							**3,604**	5,154
Total							**759,155**	646,548
Capital expenditures net	**46,590**	37,307	**1,741**	5,665	**36,860**	(10,230)	**87,567**	26,208
Depreciation and amortization	**19,352**	16,563	**2,997**	3,296	**4,308**	4,049	**27,928**	25,463

Food retailing and manufacturing — merchandises a complete range of food products, certain of which are manufactured by the company, through supermarkets, box stores and restaurants primarily in Quebec and Ontario.

General merchandise retailing — operation of self-service department stores in Quebec and Ontario.

Real estate — acquisition, development, operation and management of real estate, principally in Quebec and Ontario, with certain land held for future development in the United States.

Inter-segment transactions are carried out approximately at market values.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Steinberg Inc. as at July 26, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 26, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the method of accounting for leases referred to in note 2, have been applied on a basis consistent with that of the preceding year.

Montreal, Quebec
September 10, 1980

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants

Ivanhoe Inc. & Subsidiaries

During the fiscal year Ivanhoe made substantial purchases of land for future development in the southwestern United States. Because of the size of and certain difficulties encountered with these purchases, comparisons with previous years' results are distorted.

Consolidated Canadian revenues increased satisfactorily during fiscal 1980. Rental income increased by approximately 10% to $28,633,000 from $25,921,000 reported in the previous year. During the year the Montenach Shopping Centre, owned in partnership with another real estate developer, was sold. This resulted in a profit to Ivanhoe of approximately $1 million. Last year we recorded gains arising from land transactions and other real estate developments of $3.9 million.

Net earnings on Canadian operations of $6,287,000 for the year compare to net earnings of $6,442,000 in the previous year. After giving effect to the losses on U.S. transactions as discussed below, consolidated net earnings amounted to $5,146,000. Cash flow from operations was reduced from $12,174,000 to $10,411,000.

At year end total fixed assets were shown on the books of the Company at $205,651,000, an increase of more than $38 million from $167,374,000 reported last year. Long-term debt increased by $23.8 million to $136,654,000, the increase resulting primarily from a private placement of $15 million of 12.40% first mortgage bonds by Ivanhoe and balances due on land purchases. Total assets amounted to $219,229,000.

During the year Ivanhoe opened two community shopping centres having an aggregate gross leaseable area in excess of 200,000 square feet. Current plans call for the construction of two additional shopping centres, the expansion of five others and the construction of several other retail and plant facilities.

Ivanhoe's land purchases in the United States were made through U.S. subsidiaries with the declared intention of proposed development in conjunction with local associates. It was later discovered that certain of these associates had used nominee corporations to acquire the land and resell it to Ivanhoe, on a non-disclosed basis, at prices above their acquisition cost and substantially above fair market value. Legal proceedings, asking for a recision of the sales and/or damages, have been instituted.

With respect to these U.S. transactions, the accounts of Ivanhoe reflect an operating loss of $1,141,000 Canadian after making appropriate income tax provisions. This amount represents legal expenses incurred, carrying costs on certain of the properties and, with respect to one property, the difference between the amount paid for the land and the current fair market value. On certain of the properties carrying costs have been capitalized.

At year end an independent appraisal of certain of Ivanhoe's fixed assets was completed. Land held for future development in Canada was appraised at $56.98 million which is $26.66 million or 88% above book value. Interests held by Ivanhoe in companies in which it owns 50% or less were valued at $32 million in comparison to a book value of $3.6 million.

The appraisal did not include Ivanhoe's developed properties which are carried on the Company's books at $150,222,000. On the basis of current rental income, land values, building costs and interest rates, Ivanhoe believes that these properties have a current value which is substantially above the recorded book value. An independent appraisal of these properties is currently in progress.

In March 1980, Ralph H. Ordower, the Vice-President and General Manager of Ivanhoe for the previous seven years, was tragically killed. He will be truly missed by his friends and associates, both in the Company and in the community which he served with dedication.

Consolidated statements of earnings and retained earnings

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 26, 1980
(thousands of dollars)

Earnings	1980 $	1979 $
Revenue		
Rentals — Steinberg Inc. and subsidiaries	**13,206**	12,287
— other	**15,427**	13,634
Gain (loss) on land transactions	**(108)**	755
Gain arising from real estate developments		3,198
	28,525	29,874
Expenses		
Operating and administrative	**3,180**	1,954
Wages and employee benefits	**3,426**	3,107
Depreciation	**4,308**	4,049
	10,914	9,110
Earnings from Operations	**17,611**	20,764
Interest and Other Expenses (Income)		
Interest and amortization of discount on long-term debt		
Steinberg Inc.	**966**	860
Other	**11,285**	10,167
Other interest	**17**	84
Interest earned and gain on redemption of long-term debt	**(880)**	(1,382)
Share of net earnings of affiliated companies and partnerships	**(2,342)**	(420)
	9,046	9,309
Earnings before Income Taxes and Minority Interest	**8,565**	11,455
Income Taxes		
Current	**2,320**	3,313
Deferred	**852**	1,534
	3,172	4,847
Earnings before Minority Interest	**5,393**	6,608
Minority Interest	**247**	166
Net Earnings for the Year	**5,146**	6,442
Represented by:		
Canadian operations	**6,287**	6,442
United States operations	**(1,141)**	
	5,146	6,442

Retained Earnings	1980 $	1979 $
Balance – Beginning of Year	**28,648**	22,972
Net earnings for the year	**5,146**	6,442
	33,794	29,414
Dividends		
5% non-cumulative preferred shares	**795**	766
8% cumulative preferred shares	**1,028**	
	1,823	766
Balance – End of Year	**31,971**	28,648

Consolidated balance sheet

Ivanhoe Inc. and Subsidiary Companies
As at July 26, 1980
(thousands of dollars)

Assets	1980 $	1979 $
Property Interests		
Income producing properties	**201,784**	184,966
Accumulated depreciation	**51,562**	47,253
	150,222	137,713
Land held for future development	**55,429**	29,661
	205,651	167,374
Other Assets		
Accounts receivable (note 2)	**3,414**	8,478
Prepaid expenses	**4,185**	4,174
Investments (note 3)	**4,748**	4,394
Unamortized discount on long-term debt	**1,231**	1,218
	219,229	185,638

Liabilities

Long-Term Debt and Other Obligations (note 4)	**136,654**	112,855
Other Liabilities		
Bank advances	**2,028**	842
Accounts payable and accrued liabilities (note 5)	**9,840**	7,856
	11,868	8,698
Deferred Income Taxes	**12,569**	11,718
Minority Interest	**1,470**	1,891
	162,561	135,162

Shareholders' Equity

Capital Stock (note 6)	**24,697**	21,828
Retained Earnings	**31,971**	28,648
	56,668	50,476
	219,229	185,638

Signed on Behalf of the Board
H. Arnold Steinberg, Director
Mel Dobrin, Director

Consolidated statement of cash flow and changes in financial position

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 26, 1980
(thousands of dollars)

	1980 $	1979 $
Net Earnings for the Year	**5,146**	6,442
Items not requiring cash		
Depreciation	**4,308**	4,049
Deferred income taxes	**852**	1,534
Other	**105**	149
Cash Flow from Operations	**10,411**	12,174
Financing		
Additional long-term debt	**38,028**	1,842
Repayment of long-term debt	**(12,815)**	(35,364)
Additions to (repayment of) advances from Steinberg Inc.	**(1,285)**	10,020
Issuance of shares of a subsidiary to Steinberg Inc.		88
Issuance of shares to Steinberg Inc.	**2,869**	
	26,797	(23,414)
Funds Obtained from Other Assets and Liabilities	**7,200**	2,055
Payment of Dividend to Minority Shareholders by a Subsidiary Company		(56)
Payment of Dividends on Preferred Shares	**(1,823)**	(766)
Funds Invested in (Obtained from) Property Interests – Net	**42,585**	(10,007)

Notes to consolidated financial statements

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 26, 1980

1. Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. The investments in affiliated companies and partnerships not controlled by the company are accounted for on the equity basis.

Translation of foreign currencies

Accounts in foreign currencies are translated into Canadian dollars. Asset and liability accounts are translated at year-end rates, except property interests and long-term debt which are translated at rates prevailing at the transaction dates. Gains or losses on translation are included in earnings.

Property interests

Income producing properties are carried at cost (including development expenses). Land held for future development is carried at cost plus direct carrying charges on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

Depreciation is computed on income producing properties on the straight-line method at the following rates which are sufficient to amortize the cost over their estimated useful lives:

Buildings .... 40 years   Parking areas.......... 25 years   Equipment.............. 10 years

Leases

The company, as a lessor, has retained substantially all of the risks and benefits of ownership and accordingly accounts for all of its present leases as operating leases.

2. Accounts Receivable

	1980	1979
	(thousands of dollars)	
Due from tenants	**1,041**	1,513
Amounts recoverable from land transactions, funds on deposit and other items	**2,373**	6,965
	3,414	8,478

3. Investments

	1980	1979
	(thousands of dollars)	
Interest in affiliated companies and partnerships		
Shares and interests — at equity	**3,604**	3,979
Advances	**1,144**	415
	4,748	4,394

4. Long-Term Debt and Other Obligations

	1980	1979
	(thousands of dollars)	
First mortgage sinking fund bonds		
Ivanhoe Inc.		
7½% Series A, due 1991	**3,275**	3,450
7% Series B, due 1991 (repayable in U.S. currency \$1,558,000; 1979 — \$1,655,000)	**1,693**	1,806
10¼%-10½% Series 1978 due 1998 (or 1988 at option of holder)	**28,679**	29,323
12.40% Series 1980, due 1995	**15,000**	
Steinberg's Shopping Centres Limited		
7% Series A, due 1985	**2,748**	2,877
8½% Series B, due 1994	**3,221**	3,272
Steinberg Realty Limited		
8½% Series A, due 1991	**13,454**	13,671
8⅞% Series B, due 1993	**20,543**	20,785
	88,613	75,184

4. Long-Term Debt and Other Obligations (cont.)

Mortgage loans and balances payable on land purchases		
7%-12% balances payable on land purchases to 1994	**19,266**	1,427
5½%-11¾% mortgage loans, repayable in varying monthly instalments to 1985	**13,190**	13,830
12¾% mortgage loan repayable in full on June 1, 1980		1,317
	32,456	16,574
Other obligations		
Non-interest bearing advance	**7**	34
Unsecured term loan due May 19, 1982 with interest at ½ of 1% to 1% above prime		4,200
8% demand note due to Steinberg Inc.	**10,578**	1,863
Secured revolving term loan facility due June 15, 1985		
Bankers' acceptances	**5,000**	
Notes with interest at ¾% to 1¼% above prime		5,000
Advances due to Steinberg Inc. bearing interest at a rate approximating the cost of borrowing to Steinberg Inc.		10,000
	15,585	21,097
	136,654	112,855

At July 26, 1980 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity by Ivanhoe Inc. and its subsidiaries for the ensuing five fiscal years, are as follows: 1981 — $4,876,000; 1982 — $5,409,000; 1983 — $6,620,000; 1984 — $6,839,000; 1985 — $12,286,000.

The excess of bonds cancelled or purchased for redemption to date, over the cumulative sinking and purchase fund requirements at July 26, 1980 amounting to $2,361,000 may be applied against these requirements.

5. Accounts Payable and Accrued Liabilities

	1980	1979
	(thousands of dollars)	
Deferred revenue	**1,752**	1,752
Income taxes	**412**	521
Steinberg Inc.	**3,056**	
Other	**4,620**	5,583
	9,840	7,856

6. Capital Stock

	1980	1979
	(thousands of dollars)	
(a) This is comprised as follows:		
Authorized		
160,000 5% non-cumulative redeemable preferred shares of the par value of $100 each		
70,000 8% cumulative redeemable preferred shares of the par value of $100 each		
22,000 9¾% cumulative redeemable preferred shares of the par value of $100 each		
2,000 common shares without par value		
Issued and fully paid		
159,012 5% non-cumulative redeemable preferred shares (1979 – 153,200)	**15,901**	15,320
64,962 8% cumulative redeemable preferred shares (1979 – 64,088)	**6,496**	6,408
22,000 9¾% cumulative redeemable preferred shares	**2,200**	
1,000 common shares (1979 – 10,000)	**100**	10
Nil Class "A" non-voting shares (1979 – 90,000)		90
	24,697	21,828

6. **Capital Stock (cont.)**

(b) On July 29, 1979 the company's authorized and issued share capital was changed as a result of the amalgamation of Ivanhoe Inc. and its subsidiary company, Steinberg Properties Limited, which

(i) authorized an additional 5,000 5% non-cumulative redeemable preferred shares of the par value of $100 each;

(ii) increased the issued and fully paid 5% non-cumulative redeemable preferred shares to 159,012 shares at $15,901,000;

(iii) increased the issued and fully paid 8% cumulative redeemable preferred shares to 64,962 shares at $6,496,000;

(iv) reclassified the previously authorized 200,000 Class "A" non-voting shares of the par value of $1 each and the 50,000 common shares of the par value of $1 each as 2,000 common shares without par value, and converted the previously issued 90,000 Class "A" shares and 10,000 common shares into 1,000 common shares.

(c) Supplementary Letters Patent were granted April 17, 1980, creating 22,000 9¾% cumulative redeemable preferred shares of the par value of $100 each. During the year 22,000 9¾% cumulative redeemable preferred shares were issued at par in partial consideration for the purchase from Steinberg Inc. of a leasehold interest in the amount of $5,727,000.

7. **Contingent Liabilities**

Ivanhoe Inc. has guaranteed bank loans amounting to $532,875 of companies in which it has ownership interests.

8. **Litigation**

The company and certain of its U.S. subsidiaries have instituted legal action in the United States seeking recision and/or damages with respect to certain properties acquired during the year by those subsidiaries. No provision for any such recovery has been made in the accounts.

9. **Related Parties**

Ivanhoe Inc. is a wholly-owned subsidiary of Steinberg Inc. Transactions with the parent company are identified separately in these financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 26, 1980 and the consolidated statements of earnings, retained earnings and cash flow and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at July 26, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Montreal, Quebec
September 10, 1980

Coopers & Lybrand
Chartered Accountants

Ten year statistical review

Steinberg Inc. and Subsidiary Companies (thousands of dollars except where noted)	1980 $	1979 $	
Sales and operating revenue	**2,247,272**	2,082,710	1,91
Salaries, wages and employee benefits	**350,352**	310,922	28
Rentals	**30,736**	28,642	2
Depreciation and amortization	**27,928**	25,463	2
Interest on long-term debt	**16,509**	15,483	1
Income taxes	**15,142**	18,616	1
Net earnings	**27,961**	27,191	2
Inventories	**204,378**	159,885	15
Working capital	**97,180**	105,034	8
Investments and other assets	**24,539**	31,338	1
Fixed assets — net	**373,100**	313,461	31
Total assets	**759,155**	646,548	57
Long-term debt	**186,648**	160,600	20
Deferred income taxes	**26,826**	23,264	1
Minority interest	**3,365**	3,309	
Preferred stock	**67,760**	69,435	
Common and Class "A" shareholders' equity	**230,340**	213,476	19
Capital employed	**514,939**	470,084	42
Capital expenditures — net	**87,567**	26,208	4
Cash flow from operations	**60,082**	57,443	5
Dividends paid to shareholders	**12,126**	6,240	
Return on average capital employed	**7.51%**	7.98%	8
Return on average common and Class "A" equity	**10.33%**	13.26%	13
Net earnings as % of sales and operating revenue	**1.24%**	1.31%	1
Long-term debt: equity ratio	**39:61**	36:64	
Long-term interest coverage ratio	**3.65**	3.99	
Working capital ratio	**1.40**	1.60	
Inventory turn-over ratio	**9.73**	10.43	
Earnings per common and Class "A" share	**$3.24**	$3.83	
Dividend paid per common and Class "A" share	**$1.00**	$0.86	
Book value per common and Class "A" share	**$32.52**	$30.18	$
Supermarkets — Number of units	**224**	218	
— Gross leasable area (thousands of sq.ft.)	**7,380**	6,889	
— Sales area (thousands of sq.ft.)	**4,214**	3,883	
Department stores			
— Number of units	**32**	34	
— Ground floor area (thousands of sq.ft.)	**3,223**	3,348	
— Sales area (thousands of sq.ft.)	**2,255**	2,350	
Restaurants — Number of units	**200**	194	

*53 weeks

1977	1976*	1975	1974	1973	1972	1971*
$	$	$	$	$	$	$
1,767,687	1,605,642	1,430,195	1,197,319	1,012,209	881,575	792,821
261,521	222,878	190,449	158,399	134,465	114,650	102,575
21,261	19,678	17,107	14,881	11,386	11,426	11,350
20,513	18,729	15,803	14,473	12,903	11,511	10,674
15,641	13.809	9,774	8,966	7,233	5,890	5,432
19,445	18,769	15,023	15,834	14,136	10,619	9,000
21,895	21,266	11,901	16,229	16,729	14,972	9,459
146,118	122,432	112,165	113,283	82,391	68,440	59,011
74,611	54,628	35,438	23,440	30,725	26,203	8,979
12,690	16,021	21,920	14,335	12,876	8,097	7,939
293,955	267,412	239,527	218,740	198,904	175,478	164,533
522,163	471,917	418,115	389,003	338,292	287,848	266,685
199,432	175,514	152,928	117,924	117,742	99,228	82,943
16,765	13,602	11,275	12,291	9,952	8,575	8,004
2,524	2,647	2,460	2,311	1,857	1,593	2,420
7,624	8,634	9,689	10,765	11,909	12,962	13,083
172,077	155,010	138,041	130,427	118,422	104,449	91,405
398,422	355,407	314,393	273,718	259,882	226,807	197,855
47,056	46,614	36,590	34,309	36,329	22,456	18,428
46,090	43,007	27,275	33,810	31,492	27,334	20,361
4,685	4,468	4,489	4,509	3,481	2,620	2,608
8.06%	8.65%	5.78%	8.05%	8.56%	8.59%	6.42%
13.22%	14.31%	8.60%	12.76%	14.67%	15.09%	10.63%
1.24%	1.32%	0.83%	1.36%	1.65%	1.70%	1.19%
53:47	52:48	51:49	46:54	47:53	46:54	44:56
3.66	3.94	3.75	4.64	5.31	5.38	4.43
1.60	1.47	1.34	1.20	1.39	1.43	1.13
10.45	10.87	11.25	12.22	12.46	11.91	10.77
$3.10	$3.01	$1.66	$2.29	$2.37	$2.16	$1.37
$0.66	$0.60	$0.60	$0.60	$0.45	$0.36	$0.36
$24.67	$22.24	$19.83	$18.77	$17.10	$15.20	$13.41
206	197	196	191	187	185	179
6,374	5,977	5,877	5,684	5,447	5,322	5,113
3,488	3,273	3,185	3,019	2,815	2,692	2,544
31	28	28	32	31	28	26
3,038	2,743	2,743	3,236	3,255	3,032	2,931
2,112	2,046	2,046	2,294	2,173	2,001	2,138
153	123	119	119	96	70	52

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Vice-Chairman

* Member of Executive Committee
† Member of Audit Committee
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The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

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Class "A", 5¼% Preferred, and $1.95 Second Preferred Shares
Montreal Stock Exchange
Toronto Stock Exchange

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Ce rapport a été publié en français et en anglais. On peut en obtenir un exemplaire français en s'adressant au Secrétaire, Steinberg Inc., 1500, avenue Atwater, Montréal, Canada H3Z 1Y3

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